March 2021

InFocus

Standard Life Investments Global SICAV II – Global Smaller Companies Fund

Most of the world's companies are small. Index-provider MSCI includes around 6,000 of them in its Global Small-Cap measure. The investment universe for small-cap investors is therefore very broad. Yet many investors choose not to enter it. Instead, they confine themselves to the large end of the company scale. By doing so, they might be missing out on attractive diversification opportunities. At ASI, we see smaller companies as an asset class with strong potential for growth.

Last year presented many challenges for financial markets. Smaller companies were not immune to pandemic-related volatility, yet they performed well over 2020. A gain of 7.18% for the MSCI ACWI Small-Cap Index in euro terms for the 12 months to 31 December 2020 demonstrates the trend.

Why invest in smaller companies?

We think that there are three compelling reasons for investors to make an allocation to small-caps.

1. Small caps provide potential for superior returns. Historically they have outperformed their larger-cap peers. Over the 20 years to end-December 2020, the MSCI ACWI Small Cap TR Index gained almost 458% in USD terms. Its large-cap equivalent, the MSCI AC World TR Index, gained around 230%.[1] And this is outperformance purely at the index level. Market inefficiencies may give active managers the potential to add more value over the long term.
2. Shares in smaller companies offer considerable scope for diversification because their performance is not highly correlated to that of large-cap indices.
3. Finally, the asset class entails far less risk than many investors assume. Historic data shows that, at an index level, the asset class has been lower-risk than a range of large cap indices. These include Euro ex UK, Emerging Markets and Asia Pac ex Japan.

Scope for diversification

Small-cap stocks tend to exhibit greater dispersion in their returns than their large-cap peers, which are driven more by stock-specific factors than by macroeconomics and policy shifts. In the large-cap sphere, the spread of returns has been very narrow for quite some time. A handful of tech stocks have been driving returns.

Meanwhile, smaller companies frequently own niche assets in the early stages of development. Such assets are primed for growth and often overlooked by their large-cap peers. This creates an attractive environment for stock-pickers – and a sizeable opportunity for specialist small-cap investors.

2020 case studies

Last year, a diverse range of our high-quality investee companies delivered strong growth in very challenging conditions.
Top contributors to performance included Chegg and Generac.

Chegg is a US company that provides an online educational platform. Its platform is on-demand, personalised, affordable and backed-up with human help. These characteristics have helped to drive Chegg's success in last year's testing conditions. But while Covid-19 has increased demand for the company's services, we believe that the pandemic has only accelerated trends that were already underway. We see a long runway of growth for Chegg, with both domestic and international opportunities.

Generac is the leading manufacturer of residential standby-generators in the US. It has benefited from structural trends in the US, including under-investment in the electrical power grid and the increasing effects of climate change. These have led to frequent and severe power outages, increasing demand for generators. Generac boasts a 75% market share, reflecting its engineering innovation, extensive dealer network and omni-channel distribution.

Case study – ESG engagement with Teleperformance

France's **Teleperformance** is a market-leader in global call-centre provision. Our last meeting with Teleperformance was our third engagement with the company in 12 months. During the first lockdown, the company faced allegations that working conditions were putting some of its employees at risk of Covid-19.During the meeting, we focused on Teleperformance's employee conditions, protection of labour rights and working conditions. The group remains adamant that the allegations do not reflect its employee base, but rather the concerns of one specific labour union. Management highlighted improved employee engagement scores post-Covid, with employee testimonies supporting their approach.

[1] Source: Lipper IM, Total Return, USD, 01 January 2000 to 31 December 2020.

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Employee turnover has also decreased. Employee engagement is very important to Teleperformance's business as there is a clear correlation between customer satisfaction and employee satisfaction. Our dialogue with the company remains very open and we think it is working constantly to improve how it mitigates labour-related risks. Ultimately, this should drive better client satisfaction and support growth.

Fund performance

The Fund outperformed its benchmark during 2020 and in January 2021 reached its 3-year anniversary[2]. As shown below, to 31 January 2021, performance has been strong over all periods.

Cumulative and annualised performance

	1 month	6 months	Year to date	1 year	3 years (p.a.)	5 years (p.a.)
Fund (net) (%)	1.70	22.51	1.70	24.66	12.45	n/a
Performance target (%)	2.58	26.88	2.58	11.77	8.16	n/a

Discrete annual returns - year to 31/1

	2021	2020	2019	2018	2017
Fund (net) (%)	24.66	16.02	-1.70	n/a	n/a
Performance target (%)	11.77	14.67	-1.27	n/a	n/a

Performance Data: Share Class D Acc EUR
Benchmark history: Performance target/Performance comparator – MSCI AC World Small Cap (EUR)
Source: Aberdeen Standard Investments. Basis: Total Return, NAV to NAV, net of annual charges, gross income reinvested, (EUR). "Fund (Net)" refers to the actual unit price performance of the shareclass shown; "Fund(Gross)" adds back charges such as the annual management charge to present performance on the same basis as the performance target / performance comparator / portfolio constraining benchmark. All return data includes investment management fees, operational charges and expenses, and assumes the reinvestment of all distributions. The returns provided do not reflect the initial sales charge and, if included, the performance shown would be lower.
Past performance is not a guide to future returns and future returns are not guaranteed.

[2] This strategy has also been managed in a UK-domiciled OEIC vehicle since 2012.

Outlook

As always, our positioning is as a result of our bottom-up approach. We believe that all of the stocks we hold have attractive quality, growth and momentum characteristics. Given the recent sector rotation in stock markets, investor positioning is less polarised than earlier in the year. This should allow a return to bottom-up stocking picking.

As we have seen, the road to recovery is not without bumps. While we have increased our weighting in some more cyclically orientated stocks, we have retained our holdings in stocks where we have high conviction.

In 2021 we anticipate the following structural themes: digitisation in Japan, factory and warehouse automation, a shift to greener energy and technologies across multiple industries and consumers' desire to connect with the outdoors. Areas to watch include President Biden's policies, the widening influence of China and countermeasures deployed to control these, potential curbs on big tech companies and the revival of emerging markets.

Dutch Risk indicator

Kirsty Desson

"Given the recent sector rotation in stock markets, investor positioning is less polarised than earlier in the year. This should allow a return to bottom-up stocking picking."

Important Information

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- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.
- Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.
- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

- The shares of small and mid-cap companies may be less liquid and more volatile than those of larger companies.
- The fund may invest in companies with Variable Interest Entity (VIE) structures in order to gain exposure to industries with foreign ownership restrictions. There is a risk that investments in these structures may be adversely affected by changes in the legal and regulatory framework.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website www.aberdeenstandard.com

The fund is a sub-fund of Standard Life Investments Global SICAV II, a Luxembourg-domiciled UCITS fund, incorporated as a Société Anonyme and organized as a Société d'Investissement á Capital Variable (a "SICAV").

In Spain Standard Life Investments Global SICAV II has been registered with the Comisión Nacional del Mercado de Valores under the number 1528.

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